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PubPol 671: Policy & Management in the Nonprofit Sector

Lecture 18: Venture Philanthropy

Neel Hajra



Change in Syllabus!

- Dione Alexander's guest lecture is postponed
- We'll start social enterprise on Wednesday



Reminder

- Paper #3 due this Friday at midnight
- Regular office hours Friday 1-2



IDEA LAB REPORT-OUTS



Team New Zealand

CORPORATE

- **Marketing v. Philanthropy:** Require nonprofits and corporations to report their cause-marketing contribution to the public.

GOVERNMENT

- **Sector Innovation:** Increase government funding of the Office of Social Innovation

FOUNDATION

- **Short-Term Focus:** Support transition-funding for nonprofits moving from program initiation phase to continued operation. For example, assist nonprofits with obtaining subsequent funding from other sources to maintain programming.

Source: Public Policy 671 winter 2010 student cohort



Team Great Lakes

CORPORATE

- **Cause Bias:** Only certain causes/narrow funding; not picking the right orgs
- **Solution:** Take a page from venture philanthropy - more engagement; hire people with more experience from nonprofits

GOVERNMENT

- **Fiscal Outcome Emphasis:** Right orgs not getting funded and not getting enough funds; for-profit bias/favor
- **Solution:** Incorporate other stakeholder / not just follow for-profit model of financial metrics / have community buy-in and engage client populations in what outcomes they want to see / include more qualitative metrics

FOUNDATION

- **Home run mentality:** A lot of bang for little bucks; short-term focus/funding; don't want to fund administrative costs
- **Solution:** Include more diverse and qualitative metrics



Team Lillehammer

GOVERNMENT

- **Sector Innovation:** Create a national database for the most effective aspects of programs found by state or federal officials. This will allow for the transfusion of effective ideas across program boundaries

FOUNDATION

- **5% Floor:** Why hold money in perpetuity? Net present value?

Source: Public Policy 671 winter 2010 student cohort



Venture Philanthropy



Why Venture Philanthropy?

- Good Tweener
- Sector blur
- Not so much about what it is; more about the issues embedded in the concept



Why has Venture Philanthropy emerged as a prominent concept?




What function does the VP concept play?

- Increase flow of capital?
- Improve distribution of capital?
- Impose economic framework on civil society?
- Bridge between private support and public support?
- Translative?



Framing the Issue: Capital

- Lack of Capital
- Distribution of Capital
- Purpose of Capital



Both sectors have to deal with
diverse sources of growth capital

Nonprofits:

- Individual
- Foundation
- Corporation
- Government

For-profit startups:

- Entrepreneur
- Angel investor
- Venture capital
- IPO



VENTURE PHILANTHROPY CHARACTERISTICS



Investment

- Vested stake in leadership and programs
- Deep involvement in application of capital
- Leveraging Networks
- Advisory or board capacity
- Strategic assistance
 - Planning
 - Recruitment
 - Coaching
 - Raising capital
 - Etc.



Metrics

- Recurring theme!
- Can't measure mission goals without performance measures
- Systems and processes
- Rigorous selection process
- A central sticking point between nonprofit and for-profit sectors



Larger Bets

- More money, fewer organizations
- Investment in leadership as much as programs



Meritocracy

- Ensure that available capital flows to the most effective organizations



Growth

- Addressing a “large societal challenge”
- Working vs. growth capital



Challenges of Venture Philanthropy

VC vs. VP

VC money in



money applied



money out



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VP money in



money applied



mission goals out



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Exit Strategy

- VC:
 - Money
- VP:
 - Mission goal achievement?
 - Sustainability?
 - Public funding
 - Fee-based services
 - Better fundraising
 - Better management
 - Technological efficiency
 - SROI?



Quiz

- Q: What was a very common former label for “venture capital”?
- A: Risk Capital



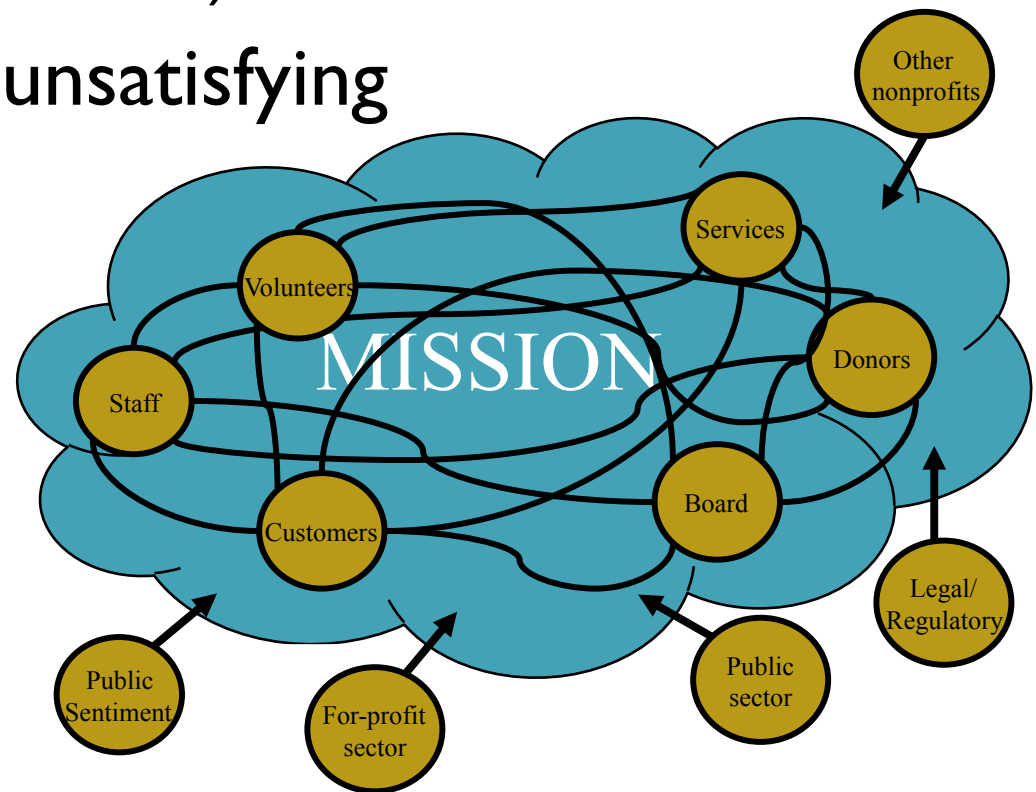
Limited Institutional Success Rate

- Rule of thumb for VC:
 - 4/10 “failures”
 - 4/10 “walking wounded”
 - 2/10 “real hits”

So what does that mean for “value generation” in nonprofit sector?

ROI & Bottom Line

- Lose the complexities and intangibles of mission-based organizations
- Incommensurable goals among and inside (Sievers vs. Collins!)
- SROI can be unsatisfying





Growth can be misguided

- Not about market share
- Differentiated local needs
- Pluralism



Loss of Control

- What is distinction between an “investor” and a “donor?”
- Accountability to whom?



Nonprofits and Civil Society

- Lifeworlds: family, civil, economic, political
- **Encroachment of economic on civil!**



Government Role?

- Partner in scaling?
- Take over after scaling?



Sustainability

- Does VP really provide new answers to this critical issue?

Funding Bridge to Public Sector Support?



Philosophical Bridge to Capital Markets?

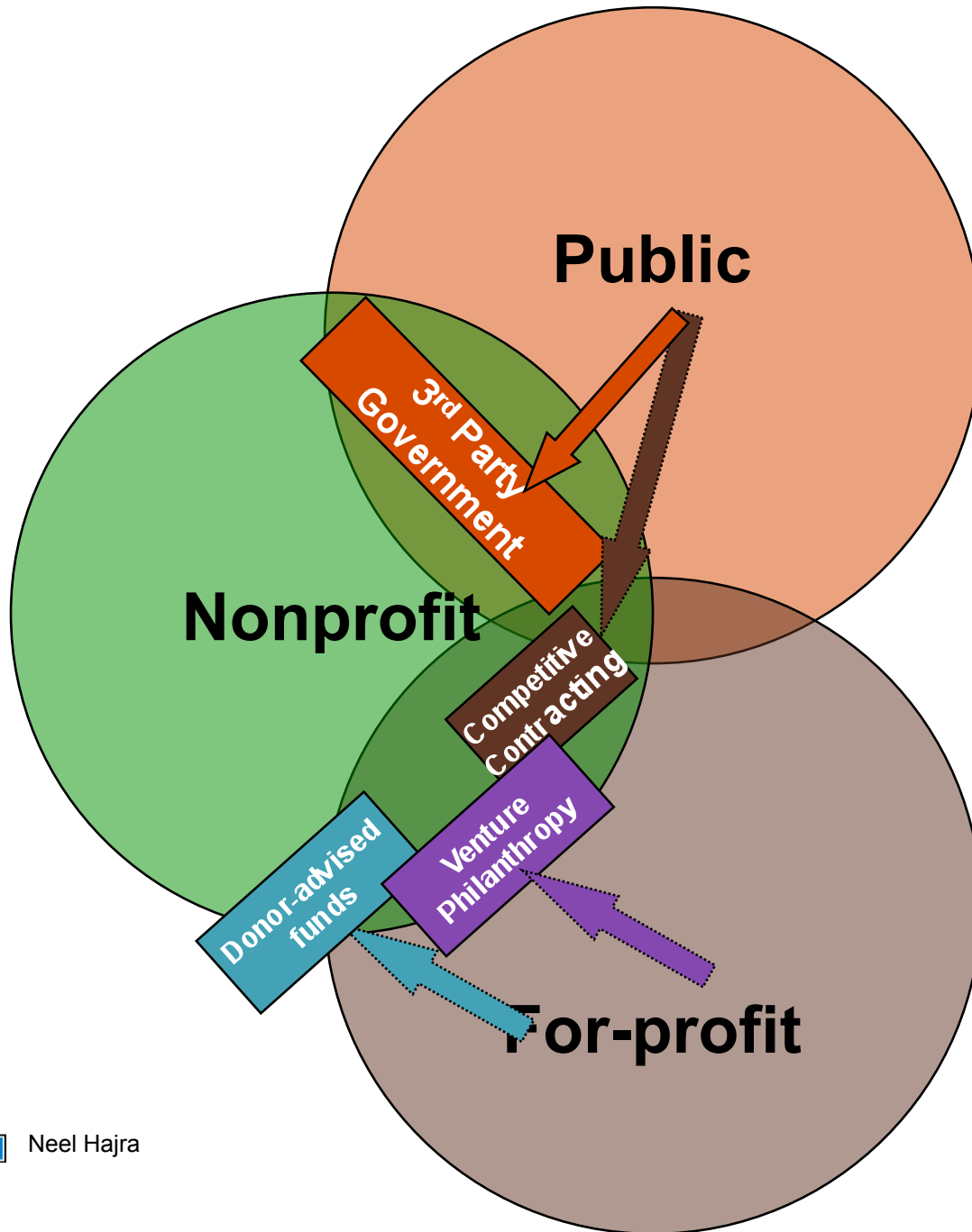




Morino Reconsiders (2010)

“A fundamental problem that threatens to undermine years’ worth of well-intentioned efforts to help nonprofits achieve greater impact.”

- **Common Sense Left Behind:** “Outcomes theory and products represent a reductionist exercise that looks at only one or two parts of what the organization does, then draws conclusions based on whatever is sampled.”
- **Too Hard on ‘Soft’ Outcomes:** “Instead of pushing back on what we were hearing, we should have done more to understand "soft" achievements that may in fact be every bit as real and important as "harder" outcomes.”
- **Backseat Driving:** “Nonprofit leaders need to own the process and be the primary beneficiary of it.”





Sector Blur!

- Here to stay?
- Good or bad?